



交大銘泰軟件實業有限公司*
SJTU SUNWAY SOFTWARE INDUSTRY LIMITED
(incorporated in the Cayman Islands with limited liability)



ANNUAL REPORT 2004

* for identification only

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website at www.hkgem.com in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

This report, for which the directors (the “Directors”) of SJTU Sunway Software Industry Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:– (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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Corporate Information

DIRECTORS

Executive Directors

Mr. Sze Wai, Marco, *Chairman*
Mr. He En Pei, *Chief executive officer*
Mr. Chu Chi Shing
Mr. Shang Guan Bu Yan
Mr. Chen Si Gen
Mr. Wang Hui Bo
Mr. He Zhan Tao

Independent non-executive Directors

Mr. Song Jing Sheng
Mr. Wang Tian Ye
Mr. Ho Chen-yu

COMPANY SECRETARY

Ms. Wong Tik, *CPA*

QUALIFIED ACCOUNTANT

Ms. Wong Tik, *CPA*

AUDIT COMMITTEE

Mr. Song Jing Sheng
Mr. Wang Tian Ye
Mr. Ho Chen-yu

AUTHORISED REPRESENTATIVES

Mr. Chu Chi Shing
Mr. He En Pei

REGISTERED OFFICE

Century Yard, Cricket Square
Hutchins Drive, P.O. Box 2681GT
George Town, Grand Cayman
British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Units 2003 and 2005, 20th Floor
Great Eagle Centre
No. 23 Harbour Road
Wanchai
Hong Kong

PRINCIPAL PLACE OF BUSINESS IN THE PEOPLE'S REPUBLIC OF CHINA

Room 601
No. 6, Zhong Guan Cun, South Street
Zhong Dian Information Building
Hai Dian District
Beijing 100086
PRC

COMPLIANCE OFFICER

Mr. Chu Chi Shing

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Bermuda (Cayman) Limited
3rd Floor, 36C Bermuda House
P.O. Box 513G.T.
Dr. Roy's Drive
George Town
Grand Cayman
British West Indies

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tengis Limited
Ground Floor
Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

SPONSOR

Core Pacific – Yamaichi Capital Limited

AUDITORS

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central
Hong Kong

PRINCIPAL BANKERS

China Construction Bank
Beijing City Commercial Bank
Citic Industrial Bank
Fujian Industrial Bank

STOCK CODE

8148

Chairman's Statement

To our Shareholders

On behalf of the Board of Directors (the "Board"), I hereby present the annual report of SJTU Sunway Software Industry Limited (the "Company") and its subsidiaries (the "Group" or "SJTU Sunway") for the financial year ended 31 December 2004.

During the year under review, the Group continued to implement its strategic business restructuring, focusing much of its resources on the information localisation industry and striving to become the best information localisation specialist in the Greater China Region. The Board believes that this strategic business restructuring will bring benefits to the Group's future development in the long run.

Over the past years, with the introduction of "Lingoworld", the Group was able to gain the full support from local and international corporations and institutions. Leveraging on the Group's unique business model and top quality service, "Lingoworld" has quickly become the best choice among clients, helping to foster the Group's stable clientele and reflecting the visionary insight of our management team.

Appreciation

2005 will be a year full of opportunities for the Group. We will actively develop our information localisation business and fully demonstrate our competitiveness in technical expertise and in the industry at large. I am highly confident that the Group's business will grow steadily and bring satisfactory returns to our shareholders.

Last but not least, I would like to take this opportunity to extend my gratitude to our customers, staff members, shareholders and investors for their support in the past year.

Sze Wai, Marco

Chairman

Hong Kong, 23 March 2005

Management Discussion and Analysis

FINANCIAL REVIEW

Overall Review

In view of the sluggish general software business in the PRC, the Board is fully supportive of the business restructuring and refocusing on the development of the information localisation business. In line with the business restructuring, the Group gradually terminated further developments in its software development business and custom-made solutions business, causing the relating turnover to drop correspondingly. At the same time, the Group recorded additional expenses as the Group had to provide for adequate provisions for trade receivables aged over 360 days and obsolete inventories in the business segment. In addition, research and development costs and administrative expenses for the year also increased because of the expansion of the information localisation business and the additional professional expenses incurred after the listing of the Company. As a result, the Group's loss attributable to shareholders was approximately HK\$25,496,000 for the year ended 31 December 2004, as compared to profit attributable to shareholders of approximately HK\$8,144,000 for last year.

Turnover

For the year ended 31 December 2004, the Group's turnover was approximately HK\$13,949,000 as compared to approximately HK\$35,502,000 for last year. The decrease in turnover was mainly attributable to the Group's business restructuring and the suspension of further developments of its general software business. Revenue from these business segments, which included sales of general software, licensing fee and custom-made solutions, recorded a substantial decrease of 82.9%, to approximately HK\$5,287,000. The overall proportion of the general software business was 21.1% of the Group's total turnover this year, as compared with 62.3% last year. On the other hand, revenue of the information localisation business, which was the Group's key focus during the year, increased by 86.7% to approximately HK\$8,662,000, accounting for 62.1% of the Group's total turnover.

Gross Profit

For the year ended 31 December 2004, the Group recorded gross profit of approximately HK\$4,376,000 as compared to approximately HK\$23,592,000 last year. Overall gross profit margin was 31.4% this year as compared with 66.5% last year. Gross profit for the information localisation business was approximately HK\$5,489,000 with gross profit margin being 63.4%. For the general software business, with the provision for obsolete stocks of approximately HK\$1,718,000 and an increase in cost of sales, it recorded gross loss of HK\$2,660,000 and hence, affecting the Group's overall gross profit margin.

Operating costs and administrative expenses

For the year ended 31 December 2004, the Group's operating costs and administrative expenses substantially increased by 81.5%, with selling expenses, research and development costs and administrative expenses having increased by 81.3%, 34.2% and 101.2% respectively.

The sluggish general software business in the PRC caused many sales and distribution agents to undergo business restructuring or to close down, leading to a substantial provision of approximately HK\$5,920,000 for trade receivables. Besides, the Group increased its spending in marketing promotions, leading to an increase in selling expenses. With the Group's listing on GEM since January 2004, daily operating costs including professional fees, staff costs and travelling expenses also increased. The establishment of a number of operation branches and subsidiaries during the year also led a prominent increase in the Group's overall administrative expenses.

Financial Resources and Liquidity

As at 31 December 2004, the Group had bank and cash balances of approximately HK\$31.1 million (2003: approximately HK\$17.2 million). About 99.8% of the total bank and cash balances were denominated in Renminbi ("RMB") with the remainder in Hong Kong dollars.

As at 31 December 2004, the outstanding bank and other loan of the Group amounted to approximately HK\$14.6 million (2003: approximately HK\$8.5 million). The borrowings, denominated in RMB, are repayable within one year and bearing interest of 6.38% per annum to 24% per annum.

Gearing Ratio

As at 31 December 2004, the total assets of the Group was approximately HK\$71.6 million (2003: approximately HK\$74.7 million) whereas the total liabilities was approximately HK\$23.1 million (2003: approximately HK\$21.2 million). The gearing ratio of the Group, calculated as total liabilities over total assets, was 32.3% (2003: 28.4%).

Foreign Exchange Exposure

Since most of the income and expenses as well as assets and liabilities of the Group are denominated in Renminbi, the Directors consider the Group has no material foreign exchange exposure.

Acquisition, Disposal and Significant Investment

In May 2004, the Group established Fujian Multi Language Translation Service Company Limited ("Fujian MLTS") in which the Group holds 75% equity interest and contributed proportionately RMB3.75 million to the registered capital of Fujian MLTS. Fujian MLTS is principally engaged in the provision of translation services, consultancy and related business, development of computer software and design of websites. Details of the above transaction were set out in the announcement of the Company dated 22 March 2004.

In June 2004, the Group established Beijing Polypegasus Technology Co., Ltd. ("Beijing Polypegasus") in which the Group holds 35% equity interest and contributed proportionately RMB3.5 million to the registered capital of Beijing Polypegasus. Beijing Polypegasus is principally engaged in the development and sales of computer software.

Management Discussion and Analysis

In August 2004, the Group established Beijing Guoxin Sunway IT Co., Ltd. ("Beijing Guoxin Sunway") in which the Group holds 51% equity interest and contributed proportionately RMB1.02 million to the registered capital of Beijing Gouxin Sunway. Beijing Gouxin Sunway is principally engaged in the provision of multilingual websites building services.

In August 2004, the Group established Shanghai Sunway Century IT Co., Ltd ("Shanghai Sunway Century") in which the Group holds 90% equity interest and contributed proportionately RMB4.5 million to the registered capital of Shanghai Sunway Century. Shanghai Sunway Century is principally engaged in the provision of software localisation services.

Other than disclosed above, as at 31 December 2004, the Group did not have any significant investments.

Future Significant Investment Plans and Expected Capital Sources

The details for estimated capital sources of future significant investment plans or expenditure scheme were respectively included in the section headed "Business Objective" of the prospectus of the Company dated 30 December 2003. As at 31 December 2004, an investment funds of approximately HK\$9.9 million was set aside for future investment purpose. Save as disclosed therein, there was no other future significant investment plan as at 31 December 2004.

Pledge of Assets and Contingent Liabilities

As at 31 December 2004, the Group did not have any substantial pledge of assets and material contingent liabilities.

DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2004.

BUSINESS REVIEW

Serious software piracy and free internet downloading have brought the whole software market to a standstill. Coupled with the longer receivable period for software business, which affects both the cash flow and developments of other businesses of the Group, the Group has decided to curb all further development projects for general software and information security software and turn its focus to customer-oriented information localisation business. Riding on the higher gross profit margin generated by the information localisation business and the Group's experience in software developments and its pool of technical expertise, the Group, is confident that the market potential for the information localisation business will be much better than that of the general software business, and will generate more stable returns for the Group. During the year under review, revenue from the information localisation business segment increased over 86% and became the Group's major source of income, accounting for approximately 62.1% of the total turnover.

BUSINESS REVIEW *(Continued)*

Leveraging on its rich experience in software development and outstanding technical expertise, the Group successfully incorporated Yaxin CAT into “Lingoworld” to further strengthen its functionality. The Group has also started research on the new generation translation engines. Additionally, the Group has completed the development of SCAT on the CATS and Lingoworld platform and testing is underway. New breakthrough has also been achieved with development of UNICODE-based SCAT, allowing SCAT to break through language limitations. With regard to research and development (“R&D”), the Group also achieved breakthrough in information localisation in terms of quality, efficiency, volume and stability.

The Group has started business co-operation with prestigious PRC, Hong Kong and internationally renowned corporations and institutions, including Dongfeng-Citroen, Kodak, Hewlett Packard, First Automobile, Xinhua News Agency, Toshiba Group and Caterpillar Group. The Group also serves a wide array of industries, including automobile, information technology, energy, machinery and construction, providing them with high standard information localisation services of recognised quality.

To sharpen its competitive edges in the information localisation industry, during the year under review, the Group started the research of multi-lingual websites and received positive response and recognition from local governments of major bi-lingual cities in the PRC, including Fuzhou and Chongqing.

Regarding the overseas market, the Group has been actively exploring them and Singapore has been chosen as its overseas headquarters. At the same time, the Group has started to explore the possibility of becoming the service partner of overseas translation agency, which will enable it to win contracts from overseas customers and increase its profit margin.

EMPLOYEE INFORMATION

As at 31 December 2004, the Group employed 202 staff (2003: 150 staff). The staff cost (including directors’ remuneration) was approximately HK\$7,751,000 for the year under review (2003: approximately HK\$6,635,000). The Directors received remuneration of approximately HK\$1,952,000 during the year ended 31 December 2004 (2003: approximately HK\$620,000). Remuneration is determined by reference to market terms and the performance, qualification and experience of individual employee.

The Group provides benefits in accordance with the relevant rules and regulations in the PRC and Hong Kong including contributions to society security scheme in the PRC and the Mandatory Provident Fund Scheme in Hong Kong. The Group also provides training to staff regularly.

PROSPECTS

The Group is confident that its efforts to strengthen and expand its information localisation business will see the business segment flourish in the future. The PRC's accession to the World Trade Organisation, the 2008 Beijing Olympic Games and 2010 Shanghai Expo will bring immense business opportunities to the Group. With more and more Chinese enterprises seeking to internationalise and multi-national corporations accelerating global business developments, the Group is presented with abundant business opportunities ahead. According to Allied Business Intelligence, by 2005, the translation market is expected to expand to US\$20 billion, and by 2008, it will value over US\$25 billion, with the PRC market accounting for approximately 9%. The Group is highly confident that the strategic business restructuring will enable the Group to focus on its information localisation business, hence more effectively allocating its resources for tapping into the promising information localisation industry.

Looking ahead, besides the automobile and machinery industries, the Group is also planning to explore the information technology and finance sectors. As more and more international corporations are moving their R&D departments or research centres to the PRC, information, as well as product and technical exchanges are expected to intensify. This will provide opportunities for the Group to achieve word processing volume of up to 10 million words per annum. The finance sector will also be the Group's next target. The slow development of China second tier market has prompted enterprises to raise funds from overseas, generating high demand for financial-related and legal-related language processing.

To grasp the opportunities ahead, the Group will further expand its information localisation business in order to increase its contribution to the Group's total turnover. Additionally, riding on its experience and professional expertise in translation, the Group will allocate more resources to improve the quality, efficiency and volume of "Lingoworld" to increase the competitiveness of their services. By providing translation services with regional characteristics, the Group sees further development of the business segment.

With regard to bi-lingual businesses, after a series of testing and trial runs, the Group will conduct practical tests to develop typical projects and application solutions. The Group has identified Sichuen News as its test case and started related arrangements. Initial testing is expected to be completed by end of June 2005 and applications will be extended after October 2005. The Group plans to launch extensive marketing programmes for the business application in January 2006. The Group will also step up the R&D of multi-lingual websites, which are expected to become one of the major growth drivers of the Group.

Through implementing a series of market promotion programmes, the Group expects to increase recognition of its products and services in both the local and international markets, hence building up an extensive clientele to support its future growth. In the PRC market, the Group plans to expand its business to areas outside Shanghai, Fuzhou, Changchun and Wuhan, and business in Chongqing and Xian has formally started. The Group will also actively improve its web-based market strategy and is highly confident that the business proportion of online sales and services will increase within three years.

With the smooth implementation of the above programmes, the management strongly believes the business foundation of the Group will be further enhanced to achieve even better results.

Directors and Senior Management

DIRECTORS

Executive Directors

Mr. SZE Wai, Marco (史偉), aged 39, is the chairman of the Group and is responsible for formulating the Group's business strategies. In the past 15 years, Mr. Sze has been actively involved in the investment and management of companies involving manufacturing, property development and investment, transportation, trading and IT. Mr. Sze joined the Group in September 2001 and is also the Chairman of Start Technology Company Limited ("Start Technology").

Mr. HE En Pei (何恩培), aged 35, is an executive Director and the Chief Executive Officer of the Group is responsible for strategic planning and supervision of the overall operation of the Group. Mr. He is the elder brother of Mr. He Zhan Tao. Mr. He graduated from Huazhong University of Science & Technology (華中理工大學) with a master degree in Electronic Materials and Components in June 1995. Mr. He has been a practitioner in the field of information technology and has gained more than five years of experience in corporate management. Mr. He served as the chief officer of Advanced Technology (Zhuhai) Co. Ltd.* (珠海南科電子有限公司) for one year supervising the testing, research and development and production departments. He was also the vice-president of Beijing Hong Da Electronic and Technology Centre* (北京鴻達電子新技術研究所) from September 1996 to September 1997. Mr. He was nominated as the Year 99 PRC Top Ten IT Icons (99中國十大IT風雲人物). The name and experiences of Mr. He has been written into the "The History of One Hundred Outstanding Entrepreneurs in China – 2001" (中國2001年百名優秀企業家創業史名錄). Mr. He worked in the Group since August 1998.

Mr. CHU Chi Shing (朱至誠), aged 37, joined the Group in June 2000 and is an executive Director and is responsible for formulating the marketing strategies of the Group. Mr. Chu graduated from Shanghai Jiao Tong University (上海交通大學) with a bachelor degree in Computer Science in July 1989. He gained many years of experience in the computer industry. Mr. Chu is also an executive director of Start Technology.

Mr. CHIU Chi Shun, Clarence (趙嗣舜), aged 39, was an executive Director and is responsible for formulating the Group's business strategies. Mr. Chiu obtained a diploma in business management from the Chinese University of Hong Kong and an executive master of business administration degree from Kellogg-HKUST. Mr. Chiu has extensive experiences in project investment, corporate planning and management and project finance. Mr. Chiu joined the Group in November 2000. Mr. Chiu resigned from the position as an executive Director of the Company on 8 October 2004.

Mr. SHANG GUAN Bu Yan (上官步燕), aged 42, joined the Group in early 2002 and is an executive Director. He is responsible for formulating the marketing strategies of the Group. Mr. Shang Guan graduated from National University of Defense Technology (中國人民解放軍國防科學技術大學) with a master degree in Science in December 1991. He has over 10 years of experience in the computer industry in the PRC. Mr. Shang Guan was once a senior management of Start Technology. Before joining Start Technology, he has been a managing director of Fujian Star System Integration Co., Ltd. (福建實達系統集成公司).

DIRECTORS *(Continued)*

Executive Directors *(Continued)*

Mr. CHEN Si Gen (陳思根), aged 39, an executive Director and is responsible for the business development of the Group. Mr. Chen graduated from Shanghai Jiao Tong University (上海交通大學) with a master degree in Materials Science and Engineering in March 1994. Mr. Chen is experienced in project investment and management, corporate planning and project finance. Mr. Chen is a director and general manager of SJTU Venture Capital Co., Ltd. (上海交大創業投資有限公司). Mr. Chen joined the Group in September 2002.

Mr. WANG Hui Bo (王慧波), aged 31, an executive Director and is responsible for the business development of the Group. Mr. Wang graduated from Shanghai Jiao Tong University (上海交通大學) with a master degree in International Trade in January 2002. Mr. Wang has extensive experience in corporate and investment management. Mr. Wang is a director and general manager of Simplex Technology Investment (Hong Kong) Co. Limited (香港思源科技投資有限公司) and SJTU Software Investment Co., Limited (上海交大軟件產業投資有限公司). Mr. Wang joined the Group in September 2002.

Mr. HE Zhan Tao (何戰濤), aged 31, an executive Director and Vice-President of the Group, is responsible for overseeing the product development of the Group. Mr. He is the younger brother of Mr. He En Pei. Mr. He graduated from Huazhong University of Science & Technology (華中理工大學) majoring in Computer Science and Engineering in July 1994. He was also the vice-president of Beijing Hong Da Electronic and Technology Centre* (北京鴻達電子新技術研究所) from April 1996 to July 1997. Mr. He has over 10 years of experience in software development. Mr. He worked in the Group since August 1998.

Mr. CHEN Cheng Ping (陳承平), aged 33, was an executive Director and was responsible for formulating the marketing strategies of the Group. Mr. Chen obtained a bachelor's degree in Mathematics from Fujian Normal University (福建師範大學) in June 1992. Prior to joining the Group in late 2001, Mr. Chen gained five years of experience in the computer industry and three years of experience in corporate and investment management. Mr. Chen resigned from the position as an executive Director of the Company on 4 February 2005.

Independent Non-Executive Directors

Mr. WANG Tian Ye (王天也), aged 46, is an independent non-executive Director. Mr. Wang graduated from Macquarie University, Australia with a master degree in Applied Finance and is a senior Associate of Australian Institute of Banking and Finance in April 1996. Mr. Wang had served the Bank of China, Beijing Branch, for more than ten years and was once the deputy general manager of the Sydney Branch. He has extensive experience in the banking industry and investment in the PRC and Australia. Mr. Wang was appointed by the Group in November 2003.

DIRECTORS *(Continued)***Independent Non-Executive Directors** *(Continued)*

Mr. SONG Jing Sheng (宋京生), aged 47, an independent non-executive Director. Mr. Song graduated from the postgraduate school of Chinese Academy of Social Sciences (中國社會科學院) majoring in Finance in July 1998. Mr. Song has extensive experience in the banking and finance industry in the PRC. Currently, he is not under any employment. Mr. Song was appointed by the Group in November 2003.

Mr. Ho Chen-yu (何震宇), aged 44, an independent non-executive Director. Mr. Ho graduated from the Wharton School of the University of Pennsylvania with an MBA. He is a member of the American Institute of Certified Public Accountants and a Chartered Financial Analyst. He has been an experienced equity and venture investor over the past eighteen years. He worked for Fidelity Investments and Merrill Lynch in an investment management capacity in the United States. After the relocation to Taiwan in 1996, Mr. Ho served as head of research for Capital Securities Corporation in Taiwan and founded SoftChina Venture Group, managing a venture portfolio of US\$30 million. Afterwards, Mr. Ho had joined AIG Global Investment Corporation as direct investment director and orchestrated and invested several successful investments in the Greater China Region since 2002. Mr. Ho was appointed by the Group on 28 September 2004.

MANAGEMENT**Senior Management**

Mr. NIU Jie (牛杰), aged 30, is the Vice-President for the Group's strategic development department, and responsible for the strategic development and overseas sales and marketing of the Group. Mr. Niu graduated from Anhui University (安徽大學) majoring in Computer Application. Mr. Niu gained over 5 years of experience in the field of information technology and was the senior economist of the Beijing Applied Science Institute (北京應用科學院高級經濟師). Mr. Niu also served as the manager of the marketing department of Beijing Hong Da Electronic and Technology Centre* (北京鴻達電子新技術研究所) from September 1996 to August 1997. Mr. Niu joined the Group in September 1997.

Ms. YAN Li Li (閻栗麗), aged 32, is the general manager of the Group's translation business department. Ms. Yan graduated from Kunming Engineering Institute (昆明工學院) with a bachelor's degree in Civil Engineering. She served as the manager of the development and planning department of Beijing Hong Da Electronic and Technology Centre* (北京鴻達電子新技術研究所) from October 1996 to September 1997. Ms. Yan has worked in the Group since August 1998.

MANAGEMENT *(Continued)*

Senior Management *(Continued)*

Ms. AN Jie (安杰), aged 35, is the financial controller of the Group in the PRC. Ms. An graduated from Renmin University of China (中國人民大學) majoring in Accountancy and is a PRC's qualified accountant (會計師資格). Ms. An had served as the manager of the finance department of Beijing Rui Yi Industrial Development Co. Ltd.* (北京市銳意工貿發展有限公司) for more than three years prior to joining the Group in August 1998.

Company Secretary

Ms. WONG Tik (黃荻), aged 33, is the company secretary of the Company. Ms. Wong has over eight years of experience in auditing and accounting and she is an associate member of the Hong Kong Institute of Certified Public of Accountants.

Report of the Directors

The Directors hereby present their annual report together with the audited financial statements of the Company and the Group for the year ended 31 December 2004.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding while the Group is principally engaged in the provision of information localisation services, custom-made solutions and the development and sales of general software.

An analysis of the principal activities of the operations of the Group during the financial year are set out in note 14 on the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	Percentage of the Group's total	
	Sales	Purchases
The largest customer	12.6%	
Five largest customers in aggregate	41.2%	
The largest supplier		19.4%
Five largest suppliers in aggregate		41.5%

At no time during the year have the Directors, their associates or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) had any interest in these major customers and suppliers.

FINANCIAL STATEMENTS

The results of the Group for the year ended 31 December 2004 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 28 to 67.

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2004.

RESERVES

Details of the movements in the reserves of the Company and the Group during the year are set out in note 28 on the financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2004, the Company's reserves available for distribution calculated in accordance with the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands amounted to HK\$24,150,091 (2003: HK\$12,776,684). These reserves may be distributed provided that immediately following the date on which the distribution is proposed to be made, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

FIXED ASSETS

Details of the movements in fixed assets of the Group are set out in note 15 on the financial statements.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the financial year are set out in note 27 on the financial statements.

DIRECTORS

The Directors during the financial year were:

Executive Directors

Mr. Sze Wai, Marco, *Chairman*

Mr. He En Pei, *Chief Executive Officer*

Mr. Chu Chi Shing

Mr. Chiu Chi Shun, Clarence (resigned on 8 October 2004)

Mr. Shang Guan Bu Yan

Mr. Chen Si Gen

Mr. Wang Hui Bo

Mr. He Zhan Tao

Mr. Chen Cheng Ping (resigned on 4 February 2005)

Independent non-executive Directors

Mr. Song Jing Sheng

Mr. Wang Tian Ye

Mr. Ho Chen-yu (appointed on 28 September 2004)

DIRECTORS *(Continued)*

In accordance with article 108 (A) of the Company's articles of association, one-third of the Directors for the time being, other than a Director holding office as Chairman or Deputy Chairman, shall retire at each Annual General Meeting from office by rotation. Further, according to article 112 of the articles of association of the Company, any director appointed by the Directors to fill a casual vacancy in the Company under that article shall hold office only until the next following Annual General Meeting and shall then be eligible for re-election at the meeting.

Accordingly, in accordance with article 108(A) of the Company's articles of association, Mr. Chen Si Gen, Mr. Wang Hui Bo and Mr. Song Jing Sheng will retire from the Board by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election. In addition, Mr. Ho Chen-yu will retire as Director in the forthcoming Annual General Meeting and will not offer himself for re-election as Director at the meeting.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company for an initial terms of three years commencing from 1 November 2003, and is automatically renewable for successive terms of one year upon expiry of the then current term, until terminated by not less than three months' notice in writing served by either party or the other.

The independent non-executive Directors (except Mr. Ho Chen-yu) have been appointed for a term of two years commencing from 25 November 2003.

No director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2004, none of the Directors and chief executives of the Company had any interest or short position in any shares or underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were:-

- (a) recorded in the register required to be kept under section 352 of SFO; or
- (b) otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS WHO ARE REQUIRED TO DISCLOSE THEIR INTEREST

A. Substantial Shareholders

So far as is known to the Directors, as at 31 December 2004, the following entities had an interest or short position in the shares of the Company ("Shares") or underlying Shares as recorded in the register required to be kept under section 336 of the SFO and who were, directly or indirectly, interested in 10% or more of the Shares:

Name	Capacity	Number of Shares (Note 1)	Approximate percentage of shareholding
Futart Industry Company Limited ("Futart")	Beneficial owner	64,355,828 (L)	32.18%
Start Technology Company Limited ("Start Technology")	Interest of a controlled corporation (note 2)	64,355,828 (L)	32.18%
Simplex Technology Investment (Hongkong) Co. Limited ("Simplex")	Beneficial owner	22,528,484 (L)	11.26%
Shanghai Jiaoda Industrial Investment Management (Group) Limited ("Jiaoda Industrial Group")	Interest of a controlled corporation (note 3)	22,528,484 (L)	11.26%
Shanghai Jiao Tong University	Interest of a controlled corporation (note 3)	22,528,484 (L)	11.26%
Hongkong Sunway Technology Development Limited ("HK Sunway")	Beneficial owner	20,157,757 (L)	10.08%

Notes:

- The letter "L" denotes the entity's interests in the Shares.
- The interest in the Shares is held through Futart, the entire issued share capital of which was beneficially owned by Start Technology, a company whose shares are listed on the Main Board of the Stock Exchange. The issued share capital of Start Technology was owned as to approximately 25.05% by Leading Value Industrial Limited which is in turn owned as to 100% by Mr. Sze Wai, Marco, an executive Director.
- The interests in the Shares is held through Simplex, the entire issued share capital of which is beneficially owned by Jiaoda Industrial Group. The registered capital of Jiaoda Industrial Group is owned as to 96.735% by Shanghai Jiao Tong University and 3.265% by Shanghai Jiaoda Enterprise Management Centre* (上海交大企業管理中心), an entity wholly owned by Shanghai Jiao Tong University.

SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS WHO ARE REQUIRED TO DISCLOSE THEIR INTEREST *(Continued)*

B. Other persons whose interests are recorded in the register required to be kept under section 336 of the SFO

As at 31 December 2004, save for the entities disclosed in sub-paragraph A above, the following entities/persons had an interest or short position in the Shares and the underlying Shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Name of shareholder	Nature of interest	Number of Shares <i>(Note 1)</i>	Approximate percentage of shareholding
Dignet Investment Limited ("Dignet")	Beneficial owner	14,653,812 (L)	7.33%
Optipure Industries Limited ("Optipure")	Interest of a controlled corporation <i>(note 2)</i>	14,653,812 (L)	7.33%
Mr. Ko Wing Leung, Stephen ("Mr. Ko")	Interest of a controlled corporation <i>(note 2)</i>	14,653,812 (L)	7.33%

Notes:

1. The letter "L" denotes the person's/entity's interests in the Shares.
2. The interests in the Shares were held through Dignet, the entire issued share capital of which was beneficially owned by Optipure, which was in turn beneficially owned by Mr. Ko.

SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") which was adopted on 25 November 2003 whereby the Directors of the Company may at their discretion invite any employee, directors, suppliers, customers, advisers, consultants, joint venture partners, and any shareholders of any members of the Group or any invested entity or any holder of any securities issued by any member of the Group or any invested entity, to take up options to subscribe for Shares. The Scheme became effective upon the listing of the Company's shares on the GEM of the Stock Exchange on 9 January 2004. As at 31 December 2004, no options had been granted to any directors or employees under the Scheme.

On 17 January 2005, options entitling the holders thereof to subscribe for an aggregate of 7,500,000 Shares were granted to directors, employees, technical consultants, initial management shareholders and a substantial shareholder of the Company.

COMPLIANCE ADVISER'S INTEREST

Pursuant to the agreement dated 31 December 2003 entered into between the Company and Core Pacific – Yamaichi Capital Limited (“CPY Capital”), CPY Capital acts as the Company’s compliance adviser for a period commencing from 9 January 2004 to 31 December 2006 and CPY Capital will receive fees for acting as the Company’s compliance adviser.

At 31 December 2004, as notified and updated by CPY Capital pursuant to Rule 6.35 of the GEM Listing Rules, CPY Capital, its directors, employees or associates, did not have any interest in the share capital of the Company or any of its subsidiaries, or any right to subscribe for or to nominate persons to subscribe for the share capital of the Company or any of its subsidiaries.

DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance to which the Company, any of its subsidiaries or fellow subsidiaries was a party, in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

PRE-EMPTIVE RIGHTS

There are no provision for pre-emptive rights under the Company’s articles of association although there are no restrictions against such rights under the law in the Cayman Islands.

BANK LOAN

Particulars of bank loan of the Group as at 31 December 2004 are set out in note 24 on the financial statements.

FOUR YEARS FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last four years is set out on page 68 of the annual report.

RETIREMENT SCHEMES

Particulars of the retirement schemes of the Group are set out in note 25 on the financial statements.

COMPETING INTERESTS

None of the Directors and management shareholders of the Company (within the meaning of the GEM Listing Rules) has an interest in any business which competes or may compete with the business in which the Company is engaged.

AUDIT COMMITTEE

The Company set up an audit committee (the "Committee") on 25 November 2003 with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the Committee are to review and provide supervision over the financial reporting process and internal controls of the Group. The Committee has three members comprising three independent non-executive directors, namely Mr. Wang Tian Ye, Mr. Song Sing Sheng and Mr. Ho Chen-yu. Mr. Wang Tian Ye is the chairman of the Committee. Mr. Ho Chen-yu was appointed as a member of the Committee with effective from 28 September 2004.

During the year 2004, the audit committee met two times, reviewed the Group's financial statements for the year ended 31 December 2003 and the six months ended 30 June 2004. The committee is of the view that such statements complied with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures have been made.

The Group's financial statements for the year ended 31 December 2004 have been reviewed by the Committee. The Committee considered that the relevant financial statements have been prepared in compliance with the applicable accounting principles and requirements of the Stock Exchange and other laws, and disclosures have been fully made.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules and the Board still considers each of the independent non-executive Directors to be independent.

BOARD PRACTICES AND PROCEDURES

The Company has complied with the board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules concerning board practices and procedures during the period between 9 January 2004 (the date on which the Shares first commenced trading on GEM) and 31 December 2004 save that Mr. Ho Chen-yu, an independent non-executive Director, was not appointed for a fixed term but is subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company's articles of association.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period from 9 January 2004 (the date on which the Shares first commenced trading on GEM) to 31 December 2004.

CONNECTED TRANSACTION

On 22 March 2004, the Group entered into an articles of association with 實達科技(福建)軟件系統集團有限公司(Start Technology (Fujian) Software Systems Group Company Limited (Formerly known as "Xiamen Start Dragon Information Technology Company Limited"), a subsidiary of a substantial shareholder of the Company for the establishment of a new subsidiary, 福建多語翻譯服務有限公司(Fujian Multi Language Translation Service Company Limited) ("Fujian MLTS") whose principal activity is the provision of translation services, consultancy and related business, development of computer software and design of websites. The Group holds a 75% equity interest in Fujian MLTS and is required to contribute proportionately RMB3.75 million to the registered capital of Fujian MLTS. Details of Fujian MLTS were set out in the Company's announcement dated 22 March 2004.

The related party transactions as set out in note 31(b) on the financial statements are exempted from announcement and reporting requirements under the GEM Listing Rules.

AUDITORS

KPMG were first appointed as auditors of the Company since its incorporation on 28 June 2002.

KPMG retire and, being eligible, offer themselves for reappointment. A resolution for the reappointment of KPMG as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

On behalf of the Board
Sze Wai, Marco
Chairman

Hong Kong, 23 March 2005

Comparison of Business Objectives with Actual Business Progress

An analysis comparing the business objectives as stated in the Company's prospectus dated 30 December 2003 (the "Prospectus") with the Group's actual business progress up to 31 December 2004 is set out below:

	Business objectives up to 31 December 2004 as stated in the Prospectus	Actual business progress up to 31 December 2004
<i>I. Enhancement of existing products & services and development of new products & services</i>		
(1) Translation software (information localisation)		
➤ Oriental Express	Continue to expand vocabulary database of the software and enhance its translation quality by leveraging on the resources of "Lingoworld"	Successfully leveraged the accumulated database of "Lingoworld" to enhance the translation quality of "Oriental Express" in relation to automobile, media, energy, financial and information technology industries
	To launch "Oriental Express 2005" for ordinary users and to launch professional translation tools for the petroleum and automobile industries	Postponed to next year.
➤ Yaxin CAT, Yaxin CATS and Yaxin SCAT	To introduce CAR (Computer aided reading) which make use of language material system to attract more users	Introduced to some of the existing customers
	Promote the application of CAT in tribal languages translation which can effectively support tens of tribal languages, translate law and regulatory policies in order to enter the governmental market	Completed R&D of CATS and Lingoworld's SCAT and started related testing. Developed UNICODE-based SCAT, allowing SCAT to breakthrough language limitations.

Comparison of Business Objectives with Actual Business Progress

	Business objectives up to 31 December 2004 as stated in the Prospectus	Actual business progress up to 31 December 2004
➤ Lingoworld	To establish five translation centres throughout the PRC with targeted productivity of 3,000,000 words per day for each centre. To establish a bilingual (English-Chinese or Chinese-English) translation centre in Singapore	Established translation centres in Changchun, Shanghai, Fuzhou and Wuhan with productivity of 500,000 words per day. Discussion began relating to the establishment of a bilingual translation centre in Singapore
➤ Translation services sales channel	Continue to recruit additional sales agencies in the PRC and conduct feasibility on establishing sales points in Singapore and Korea	Continue to identify competent agents. Began to study the feasibility of establishing sales agencies in Beijing, Tianjin and Lianyungang. To identify new sales points in Singapore and discussed with related parties for the feasibility on establishing sales points in Singapore.
(2) Information Security Software		
➤ Oriental Guard for PC	To launch "Oriental Guard 4.0" with the promotion of standardisation and to develop software which is compatible with other software developers	Developments on hold due to the changes in the operation environment. Please refer to the note below for details
➤ Oriental Guard for enterprise version	To introduce "Oriental Guard 3.5" for large sized enterprises, gateway anti-virus products, network version products with data-protective functions and "Linux version 2.0"	Developments on hold due to the changes in the operation environment. Please refer to the note below for details
	To launch "Oriental Guard 4.0" targeting SMEs with data protection function, "Linux version 3.0" and information security products for Windows CE operating system	

Comparison of Business Objectives with Actual Business Progress

	Business objectives up to 31 December 2004 as stated in the Prospectus	Actual business progress up to 31 December 2004
<ul style="list-style-type: none"> ➤ Information solutions and services 	To roll out anti-virus solution services and data security solution targeting large sized enterprises	Developments on hold due to the changes in the operation environment. Please refer to the note below for details
(3) General software		
<ul style="list-style-type: none"> ➤ Multimedia tools 	<p>To enhance the Internet based value-added application for the existing products</p> <p>To develop interactive entertainment solution for broadcasting over the Internet</p>	Developments on hold due to the changes in the operation environment. Please refer to the note below for details
<ul style="list-style-type: none"> ➤ Internet application 	<p>To launch digital entertainment platform based on digital magazine and " Web King", integrating resources of online-music, magazines and games</p> <p>To increase the number of digital entertainment platform users more than 300,000 and become the largest domestic supplier of the online entertainment service via digital magazine subscription, digital music downloading and digital game development and application etc.</p>	Developments on hold due to the changes in the operation environment. Please refer to the note below for details

Comparison of Business Objectives with Actual Business Progress

	Business objectives up to 31 December 2004 as stated in the Prospectus	Actual business progress up to 31 December 2004
<i>II. Increase Market Coverage</i>		
➤ Increase market coverage in the PRC	To establish sales offices in certain major cities and continue to explore the other regions e.g. Shanghai, Guangzhou, Wuhan, Nanjing, Hangzhou, Jinan, Zhengzhou Continue to establish sales office or liaison office in developing cities e.g. Harbin, Kunming, Urumugi, Chongqing	Branches has been set up in Shanghai, Changchun, Wuhan. Plan to expand business outside the above said areas, and business has already been rolled out in Chongqing and Xian
➤ Increase coverage in overseas market	To establish marketing and sales channels in Europe, United States and Russia	The Group started to explore the possibility of becoming the service partner of overseas translation agencies, which will enable the capturing of high profit margin Chinese language related business
<i>III. Promote the Company's brand name</i>		
➤ Marketing and promotion activities	To launch marketing and sales activities to promote the Group's information localisation and information security services and strengthen the corporate image and brandname in overseas countries	Launched 4 activities To inform the public: a "re-branding" press conference was held to announce the shift of emphasis on to the information localisation business As a player in the translation industry: organised translation seminar at inauguration of the Shanghai Institution which raised the corporation's industry standing As an instrumental member of the industry, the Group gained attention at the First Translation Achievement Fair of China

Comparison of Business Objectives with Actual Business Progress

	Business objectives up to 31 December 2004 as stated in the Prospectus	Actual business progress up to 31 December 2004
<i>IV. Potential acquisition and strategic alliances</i>	To seek potential acquisition or investment in various translation companies To seek potential cooperation with foreign translation association	Negotiating with target companies

Note: As a result of the sluggish market condition for the general software business, coupled with the longer receivable period for software business, the Group has decided to curb all further development projects for general software and information security software and turn the focus to expand information localisation business.

USE OF PROCEEDS

The net proceeds for issue of new shares on 9 January 2004 received by the Company was approximately HK\$17.8 million. During the period between the Latest Practicable Date ("LPD") as defined in the Prospectus (being 23 December 2003) and 31 December 2004, the net proceeds for issue of new shares had been applied as follows:

	Planned use of proceeds as stated in the Prospectus from the LPD to 31 December 2004 (HK\$'000)	Actual use of proceeds from the LPD to 31 December 2004 (HK\$'000)
Improvement in research and development of existing and new products	2,800	2,090
Increase market coverage in the PRC and overseas	2,900	1,600
Promotion of the Group's brand name	4,200	3,700
Potential acquisition and strategic alliances	4,000	–
	13,900	7,390
Total	13,900	7,390

Comparison of Business Objectives with Actual Business Progress

Notes:

The business objectives as stated in the Prospectus were based on the best estimation of the future market conditions made by the Group at the time of preparing the Prospectus. The use of proceeds was applied in accordance with the actual development of the market:

1. Due to the adjustments in business progress, the Group has not yet established overseas sales channels therefore proceeds applied in this area is less than expected.
2. An amount of HK\$3 million from the net proceeds is reserved as general working capital of the Group of which HK\$1 million has been utilised during the year under review.
3. The remaining net proceeds as at 31 December 2004 was approximately HK\$9.4 million which has been placed as interest bearing deposits in banks in the PRC.



**Auditors' report to the shareholders of
SJTU Sunway Software Industry Limited**
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 28 to 67 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's and the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the company and of the group as at 31 December 2004 and of the group's loss and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Consolidated Income Statement

For the year ended 31 December 2004 (Expressed in Hong Kong dollars)

	Note	2004 HK\$	2003 HK\$
Turnover	4	13,949,217	35,502,319
Cost of sales		(9,573,605)	(11,910,108)
Gross profit		4,375,612	23,592,211
Other revenue	5	1,092,635	2,246,769
Selling expenses		(14,952,792)	(8,246,410)
Research and development costs	6	(3,416,519)	(2,545,448)
Administrative expenses		(12,447,886)	(6,185,542)
(Loss)/profit from operations		(25,348,950)	8,861,580
Net finance costs	7(a)	(639,102)	(208,037)
Share of profits less losses of an associate		5,602	–
(Loss)/profit from ordinary activities before taxation	7	(25,982,450)	8,653,543
Income tax	8(a)	(1,275)	(509,068)
(Loss)/profit from ordinary activities after taxation		(25,983,725)	8,144,475
Minority interests		488,000	–
(Loss)/profit attributable to shareholders	11 & 28	(25,495,725)	8,144,475
(Loss)/earnings per share	13		
Basic		(12.82) cents	6.26 cents
Diluted		N/A	N/A

Consolidated Balance Sheet

At 31 December 2004 (Expressed in Hong Kong dollars)

	Note	2004 HK\$	2003 HK\$
Non-current assets			
Fixed assets	15	4,425,602	1,526,840
Intangible assets	16	4,574,374	3,513,577
Interest in an associate	18	3,306,587	–
Investment funds	19	9,872,331	1,905,660
		<u>22,178,894</u>	<u>6,946,077</u>
Current assets			
Inventories	20	2,559,205	2,161,335
Trade and other receivables	21	15,675,753	48,383,100
Tax recoverable	26(a)	111,448	–
Cash and cash equivalents	22	31,065,922	17,162,442
		<u>49,412,328</u>	<u>67,706,877</u>
Current liabilities			
Trade and other payables	23	6,143,308	12,529,486
Loan from a shareholder	31(b)	2,321,709	–
Short term loans (unsecured)	24	14,622,641	8,490,566
Current taxation	26(a)	–	188,075
		<u>23,087,658</u>	<u>21,208,127</u>
Net current assets		<u>26,324,670</u>	<u>46,498,750</u>
Minority interests		<u>2,087,472</u>	<u>–</u>
NET ASSETS		<u>46,416,092</u>	<u>53,444,827</u>
CAPITAL AND RESERVES			
Share capital	27	2,000,000	200,000
Reserves	28	44,416,092	53,244,827
		<u>46,416,092</u>	<u>53,444,827</u>

Approved and authorised for issue by the board of directors on 23 March 2005.

Sze Wai, Marco
ChairmanHe En Pei
Chief Executive Officer

The notes on pages 34 to 67 form part of these financial statements.

Balance Sheet

At 31 December 2004 (Expressed in Hong Kong dollars)

	Note	2004 HK\$	2003 HK\$
Non-current assets			
Interest in subsidiaries	17	<u>30,424,124</u>	<u>8,029,992</u>
Current assets			
Trade and other receivables	21	<u>2,483</u>	10,598,178
Cash and cash equivalents	22	<u>46,273</u>	<u>1,806</u>
		<u>48,756</u>	<u>10,599,984</u>
Current liabilities			
Trade and other payables	23	<u>2,850,137</u>	5,653,292
Loan from a shareholder		<u>1,472,652</u>	<u>–</u>
		<u>4,322,789</u>	<u>5,653,292</u>
Net current (liabilities)/assets		<u>(4,274,033)</u>	<u>4,946,692</u>
NET ASSETS		<u>26,150,091</u>	<u>12,976,684</u>
CAPITAL AND RESERVES			
Share capital	27	<u>2,000,000</u>	200,000
Reserves	28	<u>24,150,091</u>	<u>12,776,684</u>
		<u>26,150,091</u>	<u>12,976,684</u>

Approved and authorised for issue by the board of directors on 23 March 2005.

Sze Wai, Marco
Chairman

He En Pei
Chief Executive Officer

Consolidated Statement of Changes in Equity

For the year ended 31 December 2004 (Expressed in Hong Kong dollars)

		2004	2003
	<i>Note</i>	HK\$	<i>HK\$</i>
Shareholders' equity at the beginning of year		53,444,827	31,621,107
Net (loss)/profit for the year	28	(25,495,725)	8,144,475
Movements in shareholders' equity:			
Capital elimination on consolidation	27	–	(77,800)
Issuance of shares for the acquisition of a subsidiary	27	–	200,000
Net share premium received from the issuance of shares for the acquisition of a subsidiary	28	–	13,557,045
Issuance of shares for cash	27	700,000	–
Net share premium received from the issuance of shares for cash	28	17,766,990	–
Net increase in shareholders' equity arising from capital transactions with shareholders		18,466,990	13,679,245
Shareholders' equity at the end of year		46,416,092	53,444,827

Consolidated Cash Flow Statement

For the year ended 31 December 2004 (Expressed in Hong Kong dollars)

	2004	2003
Note	HK\$	HK\$
Operating activities		
(Loss)/profit from ordinary activities before taxation	(25,982,450)	8,653,543
Adjustments for:		
– Amortisation of development costs	2,202,037	1,850,318
– Impairment of intangible assets	1,214,482	–
– Depreciation	971,160	715,688
– Loss on disposal of fixed assets	–	72,611
– Net finance costs	639,102	208,037
– Provision for bad and doubtful debts	5,920,100	–
– Provision/(written back) for inventories	1,717,569	(436,086)
– Share of profits less losses of an associate	(5,602)	–
	<hr/>	<hr/>
Operating (loss)/profit before changes in working capital	(13,323,602)	11,064,111
(Increase)/decrease in inventories	(2,115,439)	3,410,049
Decrease/(increase) in trade and other receivables	26,787,247	(20,264,540)
(Decrease)/increase in trade and other payables	(6,386,178)	9,698,532
	<hr/>	<hr/>
Cash generated from operating activities	4,962,028	3,908,152
PRC income tax paid	(299,896)	(320,993)
	<hr/>	<hr/>
Net cash generated from operating activities	4,662,132	3,587,159
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
Investing activities		
Payment for purchase of fixed assets	(3,869,922)	(386,521)
Proceeds from sales of fixed assets	–	564,072
Expenditure on development projects	(4,477,316)	(1,356,223)
New loan to a related party	–	(21,837,736)
Loan repaid by a related party	–	28,045,613
Investment in an associate	(3,301,887)	–
Investment funds paid	(7,966,671)	(1,905,660)
Interest received	22,003	340,960
	<hr/>	<hr/>
Net cash (used in)/generated from investing activities	(19,593,793)	3,464,505
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>

Consolidated Cash Flow Statement

For the year ended 31 December 2004 (Expressed in Hong Kong dollars)

		2004	2003
	Note	HK\$	HK\$
Financing activities			
Repayment of bank loan		(8,490,566)	–
Proceeds from a new bank loan		14,150,943	–
Proceeds from new loans from a shareholder		2,321,709	4,946,162
Proceeds from other loan		471,698	–
Repayment of loans from related parties		–	(916,038)
Interest paid		(661,105)	(548,997)
Proceeds from shares issuance		30,100,000	4,787,848
Share issuance expenses paid		(11,633,010)	–
Capital injection from minority shareholders to subsidiaries		2,575,472	–
		<u>28,835,141</u>	<u>8,268,975</u>
Net cash generated from financing activities		28,835,141	8,268,975
Net increase in cash and cash equivalents		13,903,480	15,320,639
Cash and cash equivalents at 1 January		17,162,442	1,841,803
Cash and cash equivalents at 31 December	22	31,065,922	17,162,442
Analysis of the balances of cash and cash equivalents			
Cash at bank and in hand		31,065,922	17,162,442

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

1. REORGANISATION

SJTU Sunway Software Industry Limited (the "Company") was incorporated in the Cayman Islands on 28 June 2002 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganisation (the "Reorganisation") which was completed on 25 November 2003 to rationalise the group structure in preparation for the listing of the Company's shares on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the subsidiaries now comprising the group.

2. BASIS OF PRESENTATION

The Company and its subsidiaries (the "Group") resulting from the Reorganisation has been regarded as a continuing group. Accordingly, the consolidated financial statements have been prepared on the basis of merger accounting in accordance with Statement of Standard Accounting Practice ("SSAP") No. 2.127 "Accounting for group Reconstructions", under which the Company was the holding company of the Group for both years presented, rather than from 25 November 2003. Under these circumstances, the results of the Group for the year ended 31 December 2003 include the results of the Company and its subsidiaries with effect from 1 January 2003 or since their respective dates of incorporation/establishment, whichever is a shorter period. In the opinion of the directors, the resulting consolidated financial statements give a more meaningful view of the results and the state of affairs of the Group as a whole.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (which include all applicable Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on GEM of the Stock Exchange. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRS") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operation and financial position.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**(b) Basis of preparation of the financial statements**

The measurement basis used in the preparation of the financial statements is historical cost.

(c) Subsidiaries and controlled enterprises

A subsidiary is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half the voting power, or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

An investment in a controlled subsidiary is consolidated into the consolidated financial statements, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Group, in which case, it is stated in the consolidated balance sheet at fair value with changes in fair value recognised in the consolidated income statement as they arise.

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet separately from liabilities and the shareholders' equity. Minority interests in the results of the Group for the year are also separately presented in the income statement.

Where losses attributable to the minority exceed the minority interest in the net assets of a subsidiary, the excess, and any further losses attributable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make good the losses. All subsequent profits of the subsidiary are allocated to the Group until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 3(i)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Company, in which case, it is stated at fair value with changes in fair value recognised in the income statement as they arise.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Associate

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's net assets, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor, in which case it is stated at fair value with changes in fair value recognised in the consolidated income statement as they arise. When the Group's share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate.

Unrealised profits and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the income statement.

(e) Fixed assets

- (i) Fixed assets are stated at cost less accumulated depreciation (note 3(h)) and impairment losses (note 3(i)).
- (ii) Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Group. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.
- (iii) Gains or losses arising from the retirement or disposal of a fixed assets are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the income statement on the date of retirement or disposal.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**(f) Intangible assets**

- (i) Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Capitalised development costs are stated at cost less accumulated amortisation (see note 3(h)) and impairment losses (see note 3(i)). Other development expenditure is recognised as an expense in the period in which it is incurred.
- (ii) Subsequent expenditure on an intangible asset after its completion is recognised as an expense when it is incurred unless it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and this expenditure can be measured and attributed to the asset reliably. If these conditions are met, the subsequent expenditure is added to the cost of the intangible asset.

(g) Leased assets

Leases of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases.

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

(h) Amortisation and depreciation

- (i) Depreciation is calculated to write off the cost of fixed assets over their estimated useful lives as follows:
 - leasehold improvements are depreciated on a straight-line basis over the shorter of their estimated useful lives, being five years from the date of completion, and the unexpired terms of the lease; and

*Notes on the Financial Statements**(Expressed in Hong Kong dollars)***3. SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***(h) Amortisation and depreciation** *(Continued)**(i) (Continued)*

- other fixed assets are depreciated on a straight-line basis over their estimated useful lives as follows:

Computer and other equipment	4 – 5 years
Furniture and fixtures	3 years
Motor vehicles	8 years

- (ii)* Amortisation of intangible assets is charged to the income statement on a straight-line basis from the date of commencement of commercial operation subject to a maximum of five years.

(i) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the fixed assets and intangible assets may be impaired or an impairment loss previously recognised no longer exists or may be decreased. If any such indication exists, the asset's recoverable amount is estimated. For intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date. An impairment loss is recognised in the income statement whenever the carrying amount of an asset exceeds its recoverable amount.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

(ii) Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**(j) Inventories**

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(k) Cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(l) Employee benefits

- (i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.
- (ii) Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance and the defined contribution scheme are recognised as an expense in the income statement as incurred, except to the extent that they are included in the cost of intangible assets and inventories not yet recognised as an expense.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Employee benefits *(Continued)*

- (iii) When the Group grants employees options to acquire shares of the Company at nil consideration, no employee benefit cost or obligation is recognised at the date of grant. When the options are exercised, equity is increased by the amount of the proceeds received.
- (iv) Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(m) Income tax

- (i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.
- (ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.
- (iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

All deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**(m) Income tax** (Continued)

(iii) (Continued)

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

(iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if, the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company or Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(o) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

(i) Sale of goods

Revenue is recognised when goods are delivered to the customers' premise, which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added or other sales taxes and is after deduction of any trade discounts.

(ii) Licensing fee

Licensing fee is recognised upon the issuance of authorisation letter to the customers pursuant to which the customers are granted the right to make an agreed number of copies of the patented software.

(iii) Custom-made solutions

When the outcome of a custom-made solution contract can be estimated reliably, revenue from a fixed price contract is recognised using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to estimated total contract costs for the contract.

When the outcome of a custom-made solution contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**(o) Revenue recognition** (Continued)*(iv) Provision of information localisation services*

Revenue from the provision of information localisation services are recognised when the related services are rendered.

(v) Interest income

Interest income from bank deposits is accrued on a time-apportioned basis by reference to the principal outstanding and the rate applicable.

(p) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date.

Exchange gains and losses are dealt with in the income statement. The results of subsidiaries outside Hong Kong are translated into Hong Kong dollars at the average exchange rates for the year; balance sheet items are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with as a movement in reserves.

On disposal of a subsidiary outside Hong Kong, the cumulative amount of the exchange differences which relate to that subsidiary is included in the calculation of the profit or loss on disposal.

(q) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

(r) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

*Notes on the Financial Statements**(Expressed in Hong Kong dollars)***3. SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***(r) Segment reporting** *(Continued)*

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purpose of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories and trade and other receivables. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, administrative and financing expenses.

4. TURNOVER

The principal activities of the Group are the provision of information localisation services, custom-made solutions and the development and sales of general software. Turnover represents the revenue from the provision of information localisation services and custom-made solution contracts and the sales value of goods sold after allowances for goods returned, excludes value added or other sales taxes and is after the deduction of any trade discounts.

The amount of each significant category of revenue recognised in turnover is as follows:

	2004	2003
	HK\$	HK\$
Information localisation services	8,661,921	4,638,788
General software	2,946,951	22,110,418
Custom-made solutions	1,317,587	2,817,376
Licensing fee	1,022,758	5,935,737
	13,949,217	35,502,319

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

5. OTHER REVENUE

Other revenue mainly represents the value added tax ("VAT") refund.

Pursuant to the relevant approval document issued by the tax authorities in Beijing, a subsidiary of the Group is entitled to a refund of VAT on the sales of self developed software. The VAT refund represents the amount of VAT paid in excess of 3% of income generated from the sale of self-developed software. The amount of VAT refund is calculated on a monthly basis and recognised as other revenue when the refund is approved by the relevant tax authorities.

6. RESEARCH AND DEVELOPMENT COSTS

	2004	2003
	HK\$	HK\$
Staff costs	1,292,721	1,554,103
Software quality certification	–	73,491
Rental expenses	949,153	112,627
Software acquired for development	2,235,442	311,132
	4,477,316	2,051,353
Less: Amount capitalised	(4,477,316)	(1,356,223)
	–	695,130
Add: Amortisation of intangible assets	2,202,037	1,850,318
Impairment of intangible assets	1,214,482	–
	3,416,519	2,545,448

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

7. (LOSS)/PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

(Loss)/profit from ordinary activities before taxation is arrived at after charging/ (crediting):

	2004	2003
	HK\$	HK\$
(a) Net finance costs:		
Interest income	(22,003)	(340,960)
Exchange losses	2,183	6,598
Interest on bank advances and other borrowings repayable within five years	631,050	532,417
Bank charges	27,872	9,982
	639,102	208,037
(b) Staff costs:		
Salaries, wages and allowances	7,469,649	6,218,117
Contributions to retirement schemes (note 25)	281,016	416,817
	7,750,665	6,634,934
Average number of employees during the year	202	164

Personnel expenses include directors' remuneration totalling \$1,951,584 for the year ended 31 December 2004 (2003: \$620,457).

	2004	2003
	HK\$	HK\$
(c) Other items:		
Cost of inventories*	6,228,927	10,577,808
Auditors' remuneration	750,000	450,000
Depreciation	971,160	715,688
Amortisation of intangible assets	2,202,037	1,850,318
Impairment of intangible assets	1,214,482	–
Loss on disposal of fixed assets	–	72,611
Operating lease charges in respect of properties	3,176,183	1,754,449
Provision for bad and doubtful debts	5,920,100	–

* Cost of inventories includes provision for inventories of \$1,717,569 for the year ended 31 December 2004 (2003: written back of \$436,086).

8. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT(a) *Taxation in the consolidated income statement represents:*

	2004	2003
	HK\$	HK\$
Current tax - Income tax in The Peoples' Republic of China ("PRC")		
Tax for the year	373	509,068
Deferred tax		
Origination and reversal of temporary differences	-	-
Share of an associate's taxation	902	-
	1,275	509,068

No provision has been made for Hong Kong Profits Tax as the Group did not earn income subject to Hong Kong Profits Tax during the years ended 31 December 2004 and 2003.

The PRC income tax of the Group and share of an associate's taxation represent provisions for the PRC income tax on profits of subsidiaries and an associate operating in the PRC which have been calculated at the prevailing income tax rates ranging from 7.5% to 33% under the relevant PRC income tax rules and regulations applicable to the subsidiaries and the associate.

As foreign investment enterprises in the PRC, two subsidiaries of the Company are granted certain tax relief, under which they are entitled to income tax exemption for first three profit making years and to a 50% relief for PRC income tax to the following three years, after which the subsidiaries' profits are subject to PRC income tax at the rate of 15%.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

8. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT (Continued)

(b) Reconciliation between tax expense and accounting (loss)/profit at applicable tax rates:

	2004	2003
	HK\$	HK\$
(Loss)/profit before tax	<u>(25,982,450)</u>	<u>8,653,543</u>
Notional tax on (loss)/profit before tax, calculated at the rates applicable to profits in the PRC	(2,176,071)	649,016
Tax effect of non-deductible expenses	1,419,308	30,644
Tax effect of non-taxable revenue	(78,777)	(170,592)
Tax effect of unused tax losses not recognised	<u>836,815</u>	<u>–</u>
Actual tax expense	<u>1,275</u>	<u>509,068</u>

9. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	2004	2003
	HK\$	HK\$
Salaries and other emoluments	1,868,186	603,165
Contributions to retirement scheme	<u>83,398</u>	<u>17,292</u>
	<u>1,951,584</u>	<u>620,457</u>
Number of directors	<u>12</u>	<u>11</u>

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

9. DIRECTORS' REMUNERATION (Continued)

The executive directors received individual emoluments of approximately \$252,000 (2003: \$42,000), \$106,871 (2003: \$42,000), \$126,000 (2003: \$21,000), \$126,000 (2003: \$21,000), \$300,116 (2003: \$142,222), \$260,097 (2003: \$131,027), \$189,000 (2003: \$88,104), \$189,000 (2003: \$88,104) and \$126,000 (2003: \$21,000).

Included in the directors' remuneration were fees of \$120,000 (2003: \$12,000), \$120,000 (2003: \$12,000) and \$36,500 (2003: Nil) paid to the independent non-executive directors during the year.

No emoluments were paid by the Group to the directors or any of the five highest paid individuals (note 10) as an inducement to join or upon joining the Group or as compensation for loss of office. No director has waived or agreed to waive any emoluments during the years ended 31 December 2004 and 2003.

10. INDIVIDUAL WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, 4 (2003: 4) are directors whose emoluments are disclosed in note 9. The aggregate of the emolument in respect of the other individual for the years ended 31 December 2004 and 2003 are as follows:

	2004	2003
	HK\$	HK\$
Salaries and other emoluments	264,000	83,972
Contributions to retirement scheme	12,200	1,646
	<u>276,200</u>	<u>85,618</u>
Number of senior management	<u>1</u>	<u>1</u>

The emoluments of the individual with the highest emoluments for the years ended 31 December 2004 and 2003 are within the following band:

	Number of individuals	
	2004	2003
Nil – \$1,000,000	<u>1</u>	<u>1</u>

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

11. (LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The (loss)/profit attributable to shareholders include a loss of \$5,293,583 (2003: \$780,361) which has been dealt with in the financial statements of the Company.

12. DIVIDENDS

No dividend has been paid or declared by the Company since its incorporation.

13. (LOSS)/EARNINGS PER SHARE

(a) *Basic (loss)/earnings per share*

The calculation of basic (loss)/earnings per share is based on the loss attributable to shareholders of \$25,495,725 (2003: profit of \$8,144,475) and the weighted average of 198,849,315 ordinary shares in issue during the year (2003: 130,000,000 ordinary shares in issue and issuable comprising 20,000,000 ordinary shares in issue as at 31 December 2003 and 110,000,000 ordinary shares to be issued pursuant to the capitalisation issue (*note 27(v)*).

(b) *Diluted (loss)/earnings per share*

There were no potential dilutive ordinary shares in existence during the years ended 31 December 2004 and 2003.

14. SEGMENT REPORTING

Segment information is presented in respect of the Group's business segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting. As the Group mainly operates in the PRC, no geographical segment information is presented.

Business segments

(i) Information localisation services

To provide translation and information localisation services.

(ii) General software

The development and sale of a range of self-developed standardised software products.

(iii) Custom-made solutions

To develop and implement custom-made solutions which are specifically designed and developed for the specific needs and requirements of a particular customer.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

14. SEGMENT REPORTING (Continued)**Business segments** (Continued)

(iv) Licensing fee

To grant the right to the customers for making an agreed number of copies of the patented software.

Year ended 31 December 2004

	Information localisation services HK\$	General software HK\$	Custom-made solutions HK\$	Licensing fee HK\$	Inter- segment elimination HK\$	Consolidated HK\$
Revenue from external customers	<u>8,661,921</u>	<u>2,946,951</u>	<u>1,317,587</u>	<u>1,022,758</u>	-	<u>13,949,217</u>
Segment result	<u>(3,942,439)</u>	<u>(12,118,910)</u>	<u>(927,264)</u>	<u>372,384</u>	-	<u>(16,616,229)</u>
Unallocated operating income and expenses						<u>(8,732,721)</u>
Loss from operations						<u>(25,348,950)</u>
Net finance costs						<u>(639,102)</u>
Share of profits less losses of an associate						<u>5,602</u>
Income tax						<u>(1,275)</u>
Minority interests						<u>488,000</u>
Loss attributable to shareholders						<u>(25,495,725)</u>
Depreciation and amortisation for the year	<u>678,000</u>	<u>2,495,197</u>	-	-		
Impairment loss for the year	-	<u>1,214,482</u>	-	-		
Significant non-cash expenses (other than depreciation and amortisation)	<u>141,509</u>	<u>4,483,667</u>	<u>2,832,939</u>	<u>179,554</u>		
Segment assets	<u>7,001,216</u>	<u>9,115,082</u>	-	<u>145,789</u>	-	<u>16,262,087</u>
Unallocated assets						<u>55,329,135</u>
Total assets						<u>71,591,222</u>
Segment liabilities	<u>1,127,826</u>	<u>749,491</u>	<u>43,867</u>	<u>34,051</u>	-	<u>1,955,235</u>
Unallocated liabilities						<u>21,132,423</u>
Total liabilities						<u>23,087,658</u>
Capital expenditure incurred during the year	<u>2,235,442</u>	-	-	-		

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

14. SEGMENT REPORTING (Continued)**Business segments (Continued)****Year ended 31 December 2003**

	Information localisation services HK\$	General software HK\$	Custom-made solutions HK\$	Licensing fee HK\$	Inter- segment elimination HK\$	Consolidated HK\$
Revenue from external customers	<u>4,638,788</u>	<u>22,110,418</u>	<u>2,817,376</u>	<u>5,935,737</u>	–	<u>35,502,319</u>
Segment result	<u>3,106,250</u>	<u>3,794,947</u>	<u>2,581,526</u>	<u>5,592,187</u>	–	<u>15,074,910</u>
Unallocated operating income and expenses						<u>(6,213,330)</u>
Profit from operations						8,861,580
Net finance costs						(208,037)
Share of profit less losses of an associate						–
Income tax						<u>(509,068)</u>
Profit attributable to shareholders						<u>8,144,475</u>
Depreciation and amortisation for the year	–	2,566,006	–	–	–	
Impairment loss for the year	–	–	–	–	–	
Significant non-cash expenses (other than depreciation and amortisation)	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>		
Segment assets	<u>3,105,294</u>	<u>18,100,053</u>	<u>1,265,744</u>	<u>7,241,177</u>	–	<u>29,712,268</u>
Unallocated assets						<u>44,940,686</u>
Total assets						<u>74,652,954</u>
Segment liabilities	<u>51,222</u>	<u>1,583,261</u>	<u>31,110</u>	<u>65,543</u>	–	<u>1,731,136</u>
Unallocated liabilities						<u>19,476,991</u>
Total liabilities						<u>21,208,127</u>
Capital expenditure incurred during the year	<u>–</u>	<u>311,132</u>	<u>–</u>	<u>–</u>		

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

15. FIXED ASSETS

The Group

	Computer and other equipment <i>HK\$</i>	Furniture and fixtures <i>HK\$</i>	Motor vehicles <i>HK\$</i>	Leasehold improvements <i>HK\$</i>	Total <i>HK\$</i>
Cost:					
At 1 January 2004	2,504,052	493,609	929,399	–	3,927,060
Additions	1,078,487	829,466	–	1,961,969	3,869,922
At 31 December 2004	3,582,539	1,323,075	929,399	1,961,969	7,796,982
Accumulated depreciation:					
At 1 January 2004	1,664,628	392,684	342,908	–	2,400,220
Charge for the year	401,097	202,724	110,412	256,927	971,160
At 31 December 2004	2,065,725	595,408	453,320	256,927	3,371,380
Net book value:					
At 31 December 2004	1,516,814	727,667	476,079	1,705,042	4,425,602
At 31 December 2003	839,424	100,925	586,491	–	1,526,840

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

16. INTANGIBLE ASSETS

	The Group <i>HK\$</i>
Cost:	
At 1 January 2004	7,217,949
Additions	4,477,316
	<hr/>
At 31 December 2004	11,695,265
	<hr style="border-top: 1px dashed black;"/>
Aggregated amortisation:	
At 1 January 2004	3,704,372
Charge for the year	2,202,037
Impairment loss	1,214,482
	<hr/>
At 31 December 2004	7,120,891
	<hr style="border-top: 1px dashed black;"/>
Net book value:	
At 31 December 2004	4,574,374
	<hr/>
At 31 December 2003	3,513,577
	<hr/>

Intangible assets comprise computer software development costs that are directly associated with identifiable assets controlled by the Group and have probable future economic benefits. The net book value may be analysed as follows:

	2004 <i>HK\$</i>	2003 <i>HK\$</i>
Commercially launched	4,574,374	3,292,169
In development	-	221,408
	<hr/>	<hr/>
	4,574,374	3,513,577
	<hr/>	<hr/>

16. INTANGIBLE ASSETS (Continued)

Expenditure which enhances or extends the performance of computer software programmes beyond their original specifications is recognised as a capital improvement and added to the original cost of the software.

Owing to the unsatisfactory sales records on certain computer software, the directors have performed an assessment on the recoverable amount of the development costs previously capitalised for these computer software. Based on this assessment, the directors consider that it is unlikely that these development costs have any future value in use and hence the carrying amount of these development costs in the amount of \$1,214,482 were fully impaired (included in "Research and development costs").

17. INTEREST IN SUBSIDIARIES

	The Company	
	2004	2003
	HK\$	HK\$
Unlisted shares, at cost	13,757,045	13,757,045
Amount due to a subsidiary	(317,250)	(5,727,053)
Amount due from subsidiaries	16,984,329	–
	<u>30,424,124</u>	<u>8,029,992</u>

Balances with the subsidiaries are unsecured, interest free and have no fixed terms of repayments. Details of the subsidiaries at 31 December 2004 are as follows. The class of shares held is ordinary unless otherwise stated.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

17. INTEREST IN SUBSIDIARIES (Continued)

All of these are controlled subsidiaries as defined under note 3(c) and have been consolidated into the Group's financial statements.

Name of company	Place of incorporation/ establishment	Place of operation	Particulars of issued and paid up capital	Proportion of ownership interest			Principal activity
				Group's effective interest	held by the Company	held by subsidiary	
Besto Investment Limited ("Besto")	British Virgin Islands	Hong Kong	US\$14,833	100%	100%	–	Investment holding
SJTU Sunway Information Technology Co., Ltd. ("SJTU Sunway (Beijing)") *	PRC	PRC	RMB15,000,000	100%	–	100%	Provision of translation services, custom-made solutions and development and sales of general software
SUNV (Beijing) Century Information Technology Co., Ltd. *	PRC	PRC	RMB6,000,000	100%	–	100%	Provision of translation services and custom-made solutions
Beijing Guoxin Sunway IT Co., Ltd. #	PRC	PRC	RMB2,000,000	51%	–	51%	Provision of translation services and custom-made solutions
Shanghai Sunway Century IT Co., Ltd. #	PRC	PRC	RMB5,000,000	90%	–	90%	Provision of translation services and custom-made solutions
Fujian Multi Language Translation Service Company Limited #	PRC	PRC	RMB5,000,000	75%	–	75%	Provision of translation services and custom-made solutions

* These are wholly foreign-owned enterprises established in the PRC.

These are domestic limited liability companies established in the PRC.

18. INTEREST IN AN ASSOCIATE

	The Group	
	2004 HK\$	2003 HK\$
Share of net assets	3,306,587	–

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

18. INTEREST IN AN ASSOCIATE (Continued)

Particulars of the associate, which is an unlisted corporate entity, are as follows:

Name of associate	Form of business structure	Place of incorporation and operation	Particulars of issued and paid up capital	Proportion of ownership interest			Principal activity
				Group's effective interest	held by the Company	held by subsidiary	
Beijing Polypegasus Technology Co., Ltd.	Incorporated	PRC	RMB10,000,000	35%	–	35%	Development and sales of information security software

19. INVESTMENT FUNDS

- (a) Pursuant to an agreement dated 1 June 2004, a subsidiary of the Group entered into an agreement with an independent PRC company for a term of one year for the provision of advisory service on capital investment. As at 31 December 2004, investment fund of \$7,966,671 (equivalent to RMB8,444,671) was placed with this independent PRC company.
- (b) On 28 December 2003, the Group entered into a letter of intent with an independent third party to acquire the entire equity interest in Mighty Wish Services Limited (“Mighty Wish”). As at 31 December 2003, \$1,905,660 (equivalent to RMB2,020,000) was paid to the independent third party as a deposit for the acquisition.

On 28 December 2004, the Group entered into a revised letter of intent with this independent third party to acquire the entire equity interest in Mighty Wish and 上海瑞津翻譯有限公司. As at 31 December 2004, the amount of \$1,905,660 (equivalent to RMB2,020,000) retained as a deposit for the acquisition.

20. INVENTORIES

	The Group	
	2004 HK\$	2003 HK\$
General software		
– consignment goods	2,559,205	781,081
– inventories on hand	–	1,380,254
	<u>2,559,205</u>	<u>2,161,335</u>
Provision for inventories	<u>1,717,569</u>	–
Inventories stated at net realisable value	<u>–</u>	<u>–</u>

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

21. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2004	2003	2004	2003
	HK\$	HK\$	HK\$	HK\$
Trade receivables	8,338,684	21,059,768	–	–
Suppliers' deposits	–	4,009,434	–	–
Loans to minority shareholders (note 31(b))	1,396,226	–	–	–
Prepayments, deposits and other receivables	5,940,843	23,313,898	2,483	10,598,178
	15,675,753	48,383,100	2,483	10,598,178

- (a) All of the trade and other receivables, except rental deposits and staff advances totalling \$533,239 and \$1,009,757 as at 31 December 2004 and 2003 respectively, are expected to be recovered within one year.

Included in trade and other receivables are trade receivables (net of provisions for bad and doubtful debts) with the following ageing analysis:

	The Group	
	2004	2003
	HK\$	HK\$
Current	922,084	4,723,083
Aged over 1 month but less than 4 months	191,552	8,139,557
Aged over 4 months but less than 8 months	1,048,655	4,562,106
Aged over 8 months but less than 1 year	3,536,387	3,007,075
Aged over 1 year	2,640,006	627,947
	8,338,684	21,059,768

Debts are due for payment at the date of billing. Credit term granted by the Group to customers is generally between one to six months. Subject to negotiation, extended credit terms are available for certain major customers with well-established trading records.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

22. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2004	2003	2004	2003
	HK\$	HK\$	HK\$	HK\$
Cash at bank and in hand	31,065,922	17,162,442	46,273	1,806

23. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2004	2003	2004	2003
	HK\$	HK\$	HK\$	HK\$
Trade payables	412,161	1,259,084	–	–
Other payables	5,731,147	11,270,402	2,850,137	5,653,292
	6,143,308	12,529,486	2,850,137	5,653,292

All of the trade and other payables are expected to be settled within one year.

Included in trade and other payables are trade payables with the following ageing analysis:

	The Group	
	2004	2003
	HK\$	HK\$
Due within 3 months or on demand	412,161	418,300
Due after 3 months but within 6 months	–	33,019
Due after 6 months but within 1 year	–	722,010
Over 1 year	–	85,755
	412,161	1,259,084

*Notes on the Financial Statements**(Expressed in Hong Kong dollars)***24. SHORT TERM LOANS**

	The Group	
	2004	2003
	HK\$	HK\$
Bank loan – unsecured	14,150,943	8,490,566
Other loan – unsecured	471,698	–
	<u>14,622,641</u>	<u>8,490,566</u>

At 31 December 2004, the bank loan was bearing interest of 6.38% (2003: 5.84%) per annum, and guaranteed by the former shareholder of a subsidiary.

At 31 December 2004, other loan from an independent third party was bearing interest of 2% per month and is expected to be settled within one year.

25. RETIREMENT BENEFITS

Subsidiaries operating in the PRC participate in government pension schemes whereby the subsidiaries are required to pay annual contributions at the rate of 19% - 34% of the basic salaries. Under these schemes, retirement benefits of existing and retired employees are payable by the relevant authorities and the Group has no further obligations beyond the annual contributions.

The Company operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement scheme managed by an independent approved MPF trustee. Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of \$20,000. Contributions to the scheme vest immediately.

The Group does not operate any other scheme for retirement benefits provided to the Group's employees.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

26. INCOME TAX IN THE BALANCE SHEET

(a) Current taxation in the balance sheet represents:

	The Group	
	2004	2003
	HK\$	HK\$
PRC income tax payable	–	188,075
PRC income tax recoverable	(111,448)	–
	(111,448)	188,075

(b) Deferred tax assets not recognised

The Group has not recognised deferred tax assets in respect of tax losses of \$4,923,223 (2003: Nil) as it is not certain that future taxable profits will be available against which the asset can be utilised. The tax losses can be used to make good of subsequent years' profits and will expire in five years from the year the tax losses were resulted under the current tax legislation.

27. SHARE CAPITAL

		2004		2003	
	Note	Number of shares	HK\$	Number of shares	HK\$
<i>Authorised:</i>					
Company – Ordinary share of \$0.01 each	(iii)	4,000,000,000	40,000,000	4,000,000,000	40,000,000
<i>Issued:</i>					
At 1 January	(i)	20,000,000	200,000	10,001	77,800
Capital elimination on consolidation	(iii)	–	–	(10,000)	(77,800)
Issuance of shares to the then shareholders of Besto	(ii) & (iii)	–	–	9,999,999	100,000
Issuance of shares for the acquisition of subsidiaries	(iii)	–	–	10,000,000	100,000
Issuance of shares for cash	(iv)	70,000,000	700,000	–	–
Capitalisation issue	(v)	110,000,000	1,100,000	–	–
At 31 December		200,000,000	2,000,000	20,000,000	200,000

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

27. SHARE CAPITAL *(Continued)*

Notes:

- (i) The Company was incorporated on 28 June 2002 with an authorised share capital of \$100,000 divided into 10,000,000 ordinary shares of \$0.01 each. One ordinary share was allotted and issued nil paid on 7 August 2002.

The share capital on the combined balance sheet as at 1 January 2003 represents the aggregate share capital of the Company and Besto.

- (ii) On 25 November 2003, 9,999,999 ordinary shares of \$0.01 each were allotted and issued nil paid to the then shareholders of Besto in proportion to their respective interests in Besto.

- (iii) Pursuant to the resolutions in writing of all shareholders of the Company passed on 25 November 2003:

- the authorised share capital of the Company was increased from \$100,000 to \$40,000,000 by the creation of a further 3,990,000,000 ordinary shares of \$0.01 each.
- 10,000,000 new ordinary shares of \$0.01 each were allotted and issued, credited as fully paid at par, to the then shareholders of Besto to acquire the entire interest of the subsidiaries and became the holding company of the Group. In addition, the ordinary shares issued nil paid as stated in note (i) and (ii) above were paid up upon the transfer of the entire share capital of Besto to the Company.

As a result, the 20,000,000 ordinary shares of \$0.01 each were fully paid up at a price totalling \$13,757,045.

- (iv) On 7 January 2004, 70,000,000 ordinary shares of \$0.01 each were issued and offered for subscription (“Placing”) at a price of \$0.43 per share upon the listing of the Company’s shares on the GEM of the Stock Exchange. The Group raised approximately \$17,766,990 net of related expenses from the Placing.
- (v) Pursuant to a resolution of the directors’ meeting held on 6 January 2004 (conditional upon the share premium account of the Company being credited as a result of the Placing), an amount of \$1,100,000 standing to the credit of the share premium account of the Company was applied in paying up in full at par 110,000,000 ordinary shares of \$0.01 each allotted pursuant to the capitalisation issue authorised by a written resolution passed on 25 November 2003.
- (vi) All the shares issued by the Company rank *pari passu* and do not carry pre-emptive rights.
- (vii) Pursuant to the written resolutions of the shareholders passed on 25 November 2003, the Company had conditionally established a share option scheme (the “Scheme”) whereby the directors of the Company may, at their discretion, invite any full time or part time employees and directors, suppliers, customers and advisers to the Group (subject to the eligibility requirements as set out therein) to take up options which entitle them to subscribe for shares representing up to a maximum of 30% of the shares in issue from time to time.

During the year ended 31 December 2004 and 2003, no option had been granted to any such eligible participants under the share option scheme.

28. RESERVES**(a) The Group**

	Share premium	Capital surplus	General reserve	Retained profits/ accumulated losses	Total
	<i>(note (i))</i>	<i>(note (ii))</i>	<i>(note (iii))</i>		
	HK\$	HK\$	HK\$	HK\$	HK\$
At 1 January 2003	–	15,089,717	2,134,002	14,319,588	31,543,307
Profit for the year	–	–	–	8,144,475	8,144,475
Issuance of shares for the acquisition of subsidiaries <i>(note 27(iii))</i>	13,557,045	–	–	–	13,557,045
Transfer to reserves	–	–	793,117	(793,117)	–
At 31 December 2003	13,557,045	15,089,717	2,927,119	21,670,946	53,244,827
At 1 January 2004	13,557,045	15,089,717	2,927,119	21,670,946	53,244,827
Loss for the year	–	–	–	(25,495,725)	(25,495,725)
Premium arising from the issuance of shares for cash <i>(note 27(iv))</i>	29,400,000	–	–	–	29,400,000
Shares issuance expenses	(11,633,010)	–	–	–	(11,633,010)
Capitalisation issue <i>(note 27(v))</i>	(1,100,000)	–	–	–	(1,100,000)
Transfer to reserves	–	–	–	–	–
At 31 December 2004	30,224,035	15,089,717	2,927,119	(3,824,779)	44,416,092

Included in the figure for the accumulated losses is an amount of \$5,602 (2003: Nil) being the retained earnings attributable to an associate.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

28. RESERVES (Continued)

(b) The Company

	Share premium <i>(note (i))</i> HK\$	Accumulated losses HK\$	Total HK\$
At 1 January 2003	–	–	–
Loss for the year	–	(780,361)	(780,361)
Issuance of shares for the acquisition of subsidiaries <i>(note 27(iii))</i>	13,557,045	–	13,557,045
At 31 December 2003	<u>13,557,045</u>	<u>(780,361)</u>	<u>12,776,684</u>
At 1 January 2004	13,557,045	(780,361)	12,776,684
Loss for the year	–	(5,293,583)	(5,293,583)
Premium arising from the issuance of shares for cash <i>(note 27(iv))</i>	29,400,000	–	29,400,000
Shares issuance expenses	(11,633,010)	–	(11,633,010)
Capitalisation issue <i>(note 27(v))</i>	(1,100,000)	–	(1,100,000)
At 31 December 2004	<u>30,224,035</u>	<u>(6,073,944)</u>	<u>24,150,091</u>

Notes:

(i) Share premium

Under the Companies Law of the Cayman Islands, the funds in the share premium account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

(ii) Capital surplus

Capital surplus mainly represents the waiver of loans from the then shareholders of Besto, which was contributed as part of the capital to SJTU Sunway (Beijing).

(iii) General reserve

According to its articles of association of the subsidiaries in the PRC, the subsidiaries are required to set up a general reserve and the transfers to this fund are at the discretion of the Company. This fund can be utilised to acquire fixed assets, to increase current assets and may be converted into paid-in capital. Transfers from this fund are subject to approval by its board of directors.

(iv) Distributable reserve

At 31 December 2004, in the opinion of the directors of the Company, the reserves of the Company available for distribution to shareholders amounted to \$24,150,091 (2003: \$12,776,684) subject to the restriction stated in (i).

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

29. COMMITMENTS

- (a) Capital commitments outstanding at 31 December 2004 not provided for in the financial statements were as follows:

	The Group	
	2004	2003
	HK\$	HK\$
Contracted for	943,396	1,226,415

- (b) At 31 December 2004, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group	
	2004	2003
	HK\$	HK\$
Within 1 year	2,303,680	10,000
Over 1 year but within 5 years	3,961,396	–
	6,265,076	10,000

The Group leases a number of properties under operating leases. The leases typically run for an initial period of one to four year, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

30. LITIGATION

Two writ of summons were filed against the Company for damages in relation to breaches of agreements and defamation arising from the termination of an acquisition of a company. After seeking legal advice, the directors are of the opinion that the alleged claims are unjustifiable and will take vigorous actions to defend the cases. Notices of appeal have been served on 23 February 2005 and 25 February 2005.

The directors consider that the Company has valid defences against the claims. Accordingly, no provision has been made in respect of the alleged claims in the financial statements.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

31. MATERIAL RELATED PARTY TRANSACTIONS

(a) Significant transactions

		The Group	
		2004	2003
	<i>Note</i>	HK\$	<i>HK\$</i>
Interest received	<i>(i)</i>	–	321,969
Interest paid	<i>(ii)</i>	–	224,903
Expenses paid by a shareholder	<i>(iii)</i>	–	2,910,574
Prepayments paid by a shareholder	<i>(iv)</i>	–	103,969
Rental expenses	<i>(v)</i>	278,400	–

Notes:

- (i) Interest received in 2003 represents interest charges on short-term fundings provided by a subsidiary to finance the operation of a related company. Interest under these financing arrangements was charged at a fixed rate at 7.2% per annum for the year ended 31 December 2003. The outstanding balances of interest bearing loans have been fully repaid as at 31 December 2003.
- (ii) Interest paid in 2003 represented interest expense in respect of short-term borrowings advanced by the then shareholders of Besto. Interest under these financing arrangements was charged at 10% per annum during the year ended 31 December 2003. The outstanding balances of interest bearing loans were subsequently converted into the additional capital of Besto on 20 September 2003.
- (iii) The amounts represent operating expenses paid by a shareholder on behalf of a subsidiary (*note (b)(ii)*).
- (iv) Prepayments represent listing expenses paid by a shareholder on behalf of the Company. The amounts were subsequently converted into a loan from the shareholder on 20 September 2003.
- (v) Rental expenses are paid to a shareholder for the lease of office.

The directors of the Company are of the opinion that the above transactions with related parties were conducted on normal commercial terms in the ordinary course of the Group's business.

31. MATERIAL RELATED PARTY TRANSACTIONS (Continued)**(b) Balances with related parties**

(i) Amounts due from related parties included in trade and other receivable:

	The Group	
	2004	2003
	HK\$	HK\$
Loans to minority shareholders	<u>1,396,226</u>	<u>–</u>

Loans to minority shareholders are unsecured, bearing interest at 3% per annum and are repayable before 31 December 2005.

(ii) Amounts due to related parties include:

	The Group			
	2004		2003	
	Trade and other payables HK\$	Loans from a shareholder HK\$	Trade and other payables HK\$	Loans from a shareholder HK\$
Loans from a shareholder	–	2,321,709	–	–
Amount due to a shareholder	106,000	–	2,910,574	–
Amount due to directors	664,700	–	310,667	–
	<u>770,700</u>	<u>2,321,709</u>	<u>3,221,241</u>	<u>–</u>

Loans from a shareholder are unsecured, bearing interest ranged from 1.6% to 2.7% per annum and are repayable in October 2005.

As at 31 December 2004 and 2003, included in other payables is an amount due to a shareholder which represents operating expenses paid on behalf of the Group.

32. POST BALANCE SHEET EVENT

On 17 January 2005, 7,500,000 options to subscribe for shares in the Company were granted by the directors to eligible participants as defined in the Scheme. The options can be exercised for a period of ten years from 17 January 2005 to 16 January 2015 with an exercise price of \$0.45 per share. Each option gives the holder the right to subscribe for one share.

33. COMPARATIVE FIGURE

Certain comparative figures have been reclassified to conform with the current year's presentation.

Four years financial summary

(Expressed in Hong Kong dollars)

	2004 HK\$	2003 HK\$	2002 HK\$	2001 HK\$
Results				
Turnover	<u>13,949,217</u>	<u>35,502,319</u>	<u>40,614,887</u>	<u>31,964,278</u>
(Loss)/profit from operations	(25,348,950)	8,861,580	8,638,517	6,755,195
Net finance (costs)/income	(639,102)	(208,037)	122,379	(44,170)
Share of profits less losses of an associate	<u>5,602</u>	<u>–</u>	<u>–</u>	<u>–</u>
(Loss)/profit from ordinary activities before taxation	(25,982,450)	8,653,543	8,760,896	6,711,025
Income tax	(1,275)	(509,068)	–	–
Minority interests	<u>488,000</u>	<u>–</u>	<u>–</u>	<u>–</u>
(Loss)/profit attributable to shareholders	(25,495,725)	<u>8,144,475</u>	<u>8,760,896</u>	<u>6,711,025</u>
Assets and liabilities				
Non-current assets	22,178,894	6,946,077	6,500,362	4,409,940
Current assets	49,412,328	67,706,877	41,303,538	23,279,435
Current liabilities	(23,087,658)	(21,208,127)	(16,182,793)	(4,829,164)
	48,503,564	53,444,827	31,621,107	22,860,211
Minority interests	(2,087,472)	–	–	–
Net assets	46,416,092	<u>53,444,827</u>	<u>31,621,107</u>	<u>22,860,211</u>
Share capital	2,000,000	200,000	77,800	77,800
Reserves	44,416,092	53,244,827	31,543,307	22,782,411
	46,416,092	<u>53,444,827</u>	<u>31,621,107</u>	<u>22,860,211</u>
(Loss)/earnings per share				
Basic	(12.82) cents	6.26 cents	6.74 cents	5.16 cents
Diluted	N/A	N/A	N/A	N/A